
Finance Committee

HB 1875

Brief Description: Concerning research and development tax incentives and reporting requirements for economic development purposes.

Sponsors: Representatives Eddy, Orcutt, Parker, Kelley and Hinkle.

Brief Summary of Bill

- Increases the amount of the businesses and occupation tax credit available for research and development spending.
- Revises provisions relating to the accountability and effectiveness survey.
- Eliminates the expiration date for the businesses and occupation tax credit for research and development spending.

Hearing Date: 2/10/09

Staff: Joseph Archuleta (786-7192)

Background:

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business. Depending on the types of activities conducted, a business may have more than one B&O tax rate. The main rates are: 0.471 percent for retailing, 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, as well as activities not classified elsewhere.

A B&O tax credit is allowed for operational research and development (R&D) expenditures in high-technology businesses. The R&D eligible for the credit must be performed within this state in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

In the 2004 session, the Legislature modified the high technology R&D B&O tax credit. The credit amount is based on R&D spent in excess of 0.92 percent of a business's total taxable amount for the year. In addition, calculation of the credit by for-profit firms is based on the average tax rate of the firm for the tax reporting period, rather than 1.5 percent, the requirement prior to the 2004 changes. Therefore the credit is equal to the average tax rate multiplied by the amount spent on R&D in excess of 0.92 percent of the business total taxable amount. Additionally, in the 2004 session, participants were required to complete an annual survey providing information on the amount of B&O tax credit; the survey is due by March 31. If a business or person fails to complete the survey, the B&O tax credit participants may not take the credit in any year they fail. The Department of Revenue may also request additional information necessary to measure the results of the programs. Information reported in the survey is confidential, except for the amount of the B&O credit.

In 2005 additional changes were made to the program. For the purposes of calculating the high technology B&O tax credit for R&D spending, the average tax rate is defined to be the business's total annual taxable amount, including both taxable income and the value of the products manufactured. And beginning in calendar year 2007, taxpayers claiming the high-tech R&D credit will calculate the credit based on the firm's average tax rate or a specified percentage, whichever is higher. The specified percentage is 0.75 percent in calendar year 2007, 1.0 percent in 2008, 1.25 percent in 2009, and 1.5 percent in 2010 and thereafter.

The credit is capped at \$2 million per year for each participating firm. The B&O tax credit for R&D expenditures is currently scheduled to expire on January 1, 2015.

Summary of Bill:

The R&D B&O credit is based on the entire amount of R&D spending, not just spending in excess of the 0.92 percent qualification threshold. Taxpayers must still spend at least 0.92 percent of a taxpayer's total taxable amount for the year to qualify for the credit.

The annual survey due date is extended from March 31 to April 30. A business or person claiming this credit that fails to timely submit an annual survey for the first time is entitled to a one-time 90 day extension; if beginning in 2009, they have submitted all prior annual reports by their respective due dates and the extension request is in writing to the Department of Revenue.

Eliminates the penalty for failing to submit an annual survey, and timely completion of the annual survey may not be used by the Department of Revenue as a factor in determining eligibility for this credit.

Eliminates the expiration date of the B&O tax credit for R&D spending, and provides for an October 1, 2009 effective date.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available.

Effective Date: The bill takes effect on October 1, 2009.